

BATA

**FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

September 30, 2008

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Authority Board
BATA

We have audited the basic financial statements of **BATA** as of and for the year ended September 30, 2008, as listed in the table of contents. These financial statements are the responsibility of BATA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material aspects, the financial position of BATA as of September 30, 2008 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

BATA has not presented a management's discussion and analysis that the Governmental Accounting Standards Board has determined necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2008 on our consideration of BATA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audits.

To the Authority Board

BATA

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise BATA's basic financial statements. The supplemental information on pages 20-40 and the Schedule of Expenditures of Federal and State Awards on page 21, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements of BATA. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Dennis, Gartland & Niergarth

December 18, 2008

BATA**BALANCE SHEET - PROPRIETARY FUND**

September 30, 2008

ASSETS	
CURRENT ASSETS	
Cash	\$ 349,424
Accounts receivable	35,556
Due from other governmental units	
State	462,632
Federal	392,015
Capital grants	8,984
Prepaid insurance	<u>71,788</u>
Total current assets	1,320,399
CAPITAL ASSETS, net	<u>4,253,082</u>
Total assets	<u><u>\$ 5,573,481</u></u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Notes payable to bank	\$ 1,090,000
Accounts payable	139,462
Accrued expenses	<u>263,593</u>
Total current liabilities	1,493,055
LONG-TERM DEBT	<u>190,000</u>
Total liabilities	<u>1,683,055</u>
NET ASSETS	
Invested in capital assets, net of related debt	4,253,082
Restricted for new services	1,483,022
Deficit	<u>(1,845,678)</u>
Total net assets	<u>3,890,426</u>
Total liabilities and net assets	<u><u>\$ 5,573,481</u></u>

The accompanying notes are an integral part of these financial statements.

BATA

**STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS -
PROPRIETARY FUND**

For the Year Ended September 30, 2008

Operating Revenues (Schedule 6)	\$ 589,980
Operating Expenses (Schedule 7)	<u>7,100,761</u>
Total Operating Loss	<u>(6,510,781)</u>
Non-Operating Revenues (Schedule 8)	<u>5,567,406</u>
Net Loss Before Capital Contributions	(943,375)
Capital Contributions - Grants (Schedule 9)	<u>690,301</u>
Decrease in Net Assets	(253,074)
Net Assets, Beginning of Year	<u>4,143,500</u>
Net Assets, End of Year	<u><u>\$ 3,890,426</u></u>

The accompanying notes are an integral part of these financial statements.

BATA**STATEMENT OF CASH FLOWS - PROPRIETARY FUND**

For the Year Ended September 30, 2008

Operating activities

Cash received from customers	\$ 597,677
Refund and rebates received	93,301
Cash payments to suppliers and employees	<u>(6,607,161)</u>
Net cash used by operating activities	<u>(5,916,183)</u>

Capital and related financing activities

Federal capital grant	682,270
Acquisition of property & equipment	<u>(714,451)</u>
Net cash provided by capital and related financing activities	<u>(32,181)</u>

Non-capital financing activities

Property taxes	2,037,922
State formula grants	2,335,815
Federal formula grants	889,360
Proceeds from debt	1,904,023
Repayment of debt	(974,023)
Interest paid	(33,100)
Interest income	5,250
Intercity bus commissions	44,896
Advertising and non-transportation revenues	<u>11,945</u>
Net cash provided by non-capital financing activities	<u>6,222,088</u>

NET INCREASE IN CASH

273,724

Balance of cash, beginning of year

75,700

Balance of cash, end of year

\$ 349,424

The accompanying notes are an integral part of these financial statements.

BATA

NOTES TO FINANCIAL STATEMENTS

NOTE A - REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

BATA was created July 17, 1997 pursuant to the Michigan Public Transportation Authority Act of 1986 P.A. 196. Funding is provided by grants under Act 51 of Public Acts of 1951, as amended, and Section 18 of the Mass Transportation Act of 1964. BATA provides public transportation to the general public in non-urbanized areas including Grand Traverse and Leelanau Counties.

The accounting policies of BATA conform to generally accepted accounting principles as applicable to governmental units. The accounting and reporting framework and the more significant accounting principles and practices of BATA are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of BATA's financial activities for the fiscal year ended September 30, 2008.

The Financial Reporting Entity

BATA's financial statements include the accounts of all BATA operations. In evaluating BATA as a reporting entity, management has addressed all potential component units (traditionally separate reporting units) for which BATA may or may not be financially accountable and, as such, be includable within BATA's financial statements. In accordance with GASB Statement No. 14, BATA is financially accountable if it appoints a voting majority of an organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on BATA. Additionally, BATA is required to consider other organizations for which the nature and significance of their relationship with BATA are such that exclusion would cause BATA's financial statements to be misleading or incomplete.

Based on this criteria, management has not identified any potential component units requiring consideration for inclusion in BATA's financial statements.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

BATA's proprietary fund applies all applicable Governmental Accounting Standards Board ("GASB") pronouncements as well as following all Financial Accounting Standards Board ("FASB") pronouncements issued through November 30, 1989 except for those that conflict with or contradict GASB pronouncements. BATA's reporting entity does not apply FASB pronouncements issued after November 30, 1989.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE A - REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES - Continued

Enterprise Fund Accounting

BATA is accounted for as an enterprise fund, a proprietary fund type. The enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheet. Their reported net assets is segregated into invested in capital assets, net of related debt, and restricted and unrestricted components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Cash

For purposes of the statement of cash flows, BATA considers cash on hand, demand deposits and short-term investments in investment pools and government money market funds with maturities of three months or less when purchased to be cash.

Capital Assets and Depreciation

Capital assets are stated at cost or fair market value at date of acquisition. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized. A provision for depreciation has been established on a straight-line basis over the estimated useful life as defined in the Michigan Department of Transportation Revenue and Expense Manual and/or as approved by the Bureau of Passenger Transportation ("BPT").

The depreciation eligible for State/Federal cost reporting of \$35,731 includes only the depreciation of assets purchased with local funds and where the useful life of the asset purchased has been approved by the BPT.

Restricted Assets

A portion of BATA's tax levy is restricted for the development and provision of new services. New services are first funded with State and Federal funding and subsequently with local tax revenues. Accordingly, a portion of net assets are restricted, representing unspent tax monies relative to new services.

Except as noted above, when both restricted and unrestricted resources are available for use, it is BATA's policy to use restricted resources first, then unrestricted resources as needed.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE A - REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES - Continued

Operating and Non-Operating Revenues

BATA's operating revenues are tied to its primary purpose of providing public transportation to the general public in Grand Traverse and Leelanau Counties. Grants received to help finance operations and property tax collections are classified as non-operating revenues.

Grants

BATA receives two distinct types of grants from governmental agencies:

- Operating grants are used to fund BATA's day-to-day operations and to meet normal expenses of those operations.
- Capital grants are used for capital expenditures. All capital money used to pay for operating expenses are subtracted out as ineligible expenses.

Property Taxes

Property taxes are levied, billed and attached as enforceable liens on December 1 of BATA's fiscal year. Various municipalities collect and remit taxes until February 15, at which time the uncollected real property taxes are turned over to the counties as delinquent. Delinquent real property taxes are funded by the county and remitted to BATA. Delinquent personal property tax remains outstanding until collected from the taxpayer by the various municipalities and remitted to BATA.

For the year ended September 30, 2008, BATA levied .2346 mills for operations and .0937 mills for new services per \$1,000 of taxable valuation of approximately \$6.32 million and reported tax revenue of \$2.04 million.

Compensated Absences

Paid time off is recorded as an expenditure at the time the benefit is earned by the employee, taking into consideration maximum contractual amounts.

Cost Allocation Plans

BATA has two cost allocation plans where the methodology has been approved by the BPT. Those cost allocations are for Job Access and Reverse Commute and Contributed Services and were approved by the BPT in 2008 and 2002 respectively. These cost allocation plans were adhered to in the preparation of the financial statements.

Explanation of Ineligible Expenses per the BPT Revenue and Expense Manual

Ineligible expenses are classified appropriately according to the definition in the Local Public Transit Revenue and Expense Manual ("R&E Manual").

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE A - REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES - Continued

BATA utilizes the services of a third party to attract advertisers and negotiate terms. Subsequently, BATA receives 50% of the advertising proceeds. As a result, BATA did not incur expenses associated with #40615 advertising revenue and, therefore no expenses are subtracted out as ineligible on OAR Schedule 4E (Nonurban Regular Services) and 4E (Job Access and Reverse Commute) or on Schedule 5.

BATA subtracted out as ineligible a total of \$789 of package delivery revenue, \$25,510 of a workers' compensation rebate and \$67,791 of a Michigan Transit Pool refund associated with #40799 nontransportation revenues on OAR Schedule 4E (Nonurban Regular Services) and 4E (Job Access and Reverse Commute) and on Schedule 5. The remaining nontransportation revenues are associated with providing Meals on Wheels services and are included in eligible expenses per the BPT R&E Manual.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual amounts could differ from those estimates.

Financial Statement Presentation

The Authority reformatted its financial statements to more fully comply with the Audit Guide for Transportation Authorities issued by the Michigan Department of Transportation. Certain amounts in the prior year financial statements would have been reclassified for comparative purposes to conform with the new presentation of the current-year financial statements. As a result, the Authority has elected not to issue comparative statements for the year ended September 30, 2008.

Nonfinancial Data

The methodology used for compiling mileage on OAR Schedule 4N (Nonurban Regular Services Nonfinancial Report) and 4N (Job Access and Reverse Commute Nonfinancial Report) is an adequate and reliable method for recording vehicle mileage.

Because expenses associated with providing Job Access and Reverse Commute service is based on vehicle hours, the methodology used for compiling hours is an adequate and reliable method.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE B - CASH

At September 30, 2008, BATA's cash included the following:

Cash on hand	\$ 1,110
Bank deposits	<u>348,314</u>
	<u>\$349,424</u>

Custodial Credit Risk - Deposits

In the event of a bank failure, BATA's bank deposits may not be returned. As of September 30, 2008, \$398,306 of BATA's bank deposits of \$498,306 were exposed to custodial credit risk because they were uninsured and uncollateralized. The Federal depository insurance coverage was raised in October 2008. Substantially all BATA's deposits were covered by insurance at that time.

NOTE C - DUE FROM OTHER GOVERNMENTAL UNITS

Due from State Government

BATA receives funding from the State of Michigan for the Local Bus Operating Assistance Program. The computation of the amount due from the State of Michigan for the year ended September 30, 2008 is as follows:

	<u>Nonurban Regular Services</u>	<u>Job Access and Reverse Commute</u>
Net eligible expense	\$6,364,683	\$ 22,000
Funding rate	<u>.3615</u>	<u>1.0</u>
Funding earned	2,300,833	22,000
Funding received	<u>(1,987,120)</u>	<u>(20,730)</u>
Due from State FY2008	<u>\$ 313,713</u>	<u>\$ 1,270</u>
 FY2008 Operating Assistance – Act 51		\$313,713
FY2008 Job Access and Reverse Commute		
Section 5316 – Contract #2007-0170/Z5		1,270
FY2007 Operating Assistance – Act 51		56,781
FY2006 Operating Assistance – Act 51		<u>90,868</u>
 Total due from State		<u>\$462,632</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE C - DUE FROM OTHER GOVERNMENTAL UNITS - Continued

Due from Federal Government

BATA receives funding from the U.S. Department of Transportation under Section 5311 Operating Grants. The computation of the amount due from the Federal government for the year ended September 30, 2008 is as follows:

	<u>Nonurban Regular Services</u>
Net eligible expense	\$6,386,683
Funding rate	<u>.16</u>
Funding earned	1,021,869
Funding received	<u>(804,756)</u>
 Due from Federal government FY2008	 <u>\$ 217,113</u>
 FY2008 Operating Assistance – Section 5311 Contract #2007-0170/Z4	 \$ 217,113
FY2007 Operating Assistance - Section 5311 Contract #2007-0170/Z2	110,749
FY2006 Operating Assistance - Section 5311 Contract #2002-0012/Z22	<u>64,153</u>
 Total due from Federal	 <u>\$ 392,015</u>

Due from Capital Grants

BATA receives funding from U.S. Department of Transportation under Sections 5309 and 5311 Capital Grants. Funding sources consist of 80% Federal and 20% State. The amount due at September 30, 2008 is as follows:

Section 5311 - Contract # 2002-0012/Z20	\$ 6,000
Section 5311 - Contract # 2007-0170/Z3	<u>2,984</u>
	<u>\$ 8,984</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE D - CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2008 is as follows:

	September 30, 2007	Additions/ Transfers	Deletions/ Transfers	September 30, 2008
Shop equipment	\$ 112,911	\$ -	\$ -	\$ 112,911
Operating equipment	625,443	20,190	159,512	486,121
Vehicles	3,256,904	853,773	941	4,109,736
Office equipment and furniture	339,703	-	-	339,703
Buildings	<u>2,485,060</u>	<u>-</u>	<u>-</u>	<u>2,485,060</u>
Total depreciable assets	6,820,021	873,963	160,453	7,533,531
Less accumulated depreciation	(4,162,855)	(612,382)	-	(4,775,237)
Land	<u>1,494,788</u>	<u>-</u>	<u>-</u>	<u>1,494,788</u>
Total capital assets, net	<u>\$ 4,151,954</u>	<u>\$ 261,581</u>	<u>\$ 160,453</u>	<u>\$ 4,253,082</u>

Total depreciation expense for the year ended September 30, 2008 was \$612,382.

Substantially all capital assets have been contributed by the State of Michigan. When fixed assets have lost their utility, the assets must either be returned to the State or proceeds from the sale thereof must be turned over to the State.

NOTE E - CHANGES IN LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2008 is as follows:

September 30, 2007	New Debt	Payment	September 30, 2008
<u>\$350,000</u>	<u>\$1,904,023</u>	<u>\$974,023</u>	<u>\$1,280,000</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE E - CHANGES IN LONG-TERM DEBT - Continued

A summary of notes payable is as follows:

Note payable to bank; payable in monthly installments of \$5,000 plus interest of .25% below bank's prime rate; secured by all business assets, real estate mortgage on Cass Road property and business loan agreement; matures November 2012.	\$ 250,000
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Tax Anticipation Note payable to bank; bearing interest at 3.95% per annum due at maturity; matures April 2009.	<u>1,030,000</u>
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\$1,280,000

Current liabilities – notes payable to bank	\$1,090,000
Long-term debt	<u>190,000</u>

Total long-term debt	<u>\$1,280,000</u>
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Future minimum debt payments are as follows:

Fiscal year ended September 30,	<u>Principal</u>	<u>Interest</u>
2009	\$1,090,000	\$38,395
2010	60,000	9,491
2011	60,000	5,971
2012	60,000	2,479
2013	<u>10,000</u>	<u>73</u>
Total	<u>\$1,280,000</u>	<u>\$56,409</u>

BATA entered into a short-term borrowing arrangement with a bank in the amount of \$500,000 for the year ended September 30, 2008 due to the timing of tax collection and grant receipts. The principal balance due was \$0 at September 30, 2008. The line of credit expires at September 30, 2009.

Interest expense for the year ended September 30, 2008 was \$38,186.

NOTE F - OPERATING LEASES

BATA leases various vehicles and equipment under operating leases. Total lease expense for the year ended September 30, 2008 was \$65,522. Future minimum lease payments are as follows:

Fiscal year ended September 30,

2009	\$ 51,781
2010	29,470
2011	26,586
2012	<u>11,077</u>
Total	<u>\$118,914</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE G - RISK MANAGEMENT

BATA's primary risk of loss includes physical damage to the fleet and general liability. During the year ended September 30, 1988, BATA and 18 other transportation authorities formed the Michigan Transit Pool ("MTP"). There are two insurance programs offered by MTP. BATA participates in both the Direct Property Damage Program, which is a self-insured fund providing insurance coverage for physical damage and comprehensive losses to BATA's fleet of vehicles, and the Michigan Transit Pool Liability Trust Fund, providing general liability coverage. The Direct Property Damage Program uses excess insurance to reduce its exposure to individual comprehensive claims in excess of \$100,000 up to a maximum of \$400,000 per occurrence. Any exposure in excess of these limits would be the responsibility of the member. The Liability Trust Fund provides for up to \$5 million of coverage per occurrence.

The Direct Property Damage Program directly allocates losses incurred by a member between \$2,000 (the amount of the per-occurrence deductible) and \$10,000 (the risk-shared threshold). Risk shared losses include losses above the \$10,000 not covered by excess reinsurance. Risk shared losses will be allocated between all members participating in the collision and primary comprehensive coverage program based upon a member's average book value, divided by total participating average book value, multiplied by the total amount of risk shared losses. The actual calculation of risk shared losses will extend beyond the fiscal year-end to encompass expenses incurred to close all claims for the policy period. In the event of excess losses, all pooled losses will first be paid out of initial deposits. Should losses exceed this amount; the contingency margin will be used to pay losses. In this event, all systems will be billed the amount necessary to replenish the contingency margin within thirty (30) days.

Each authority contributes to the Liability Trust Fund an annual premium which is actuarially determined based upon BATA's vehicle hours, vehicle miles and number of passengers for the preceding year. During the initial year of the pool, BATA also contributed to the contingency reserve of the pool, which was intended to be a one-time payment. Claims less than \$50,000 are deducted directly from the applicable authority's premium deposit and subsequently billed back to BATA. Claims over \$50,000 are paid out of a pool in which all authorities participate. Each authority is credited with interest earned on its premium deposit and is charged for its share of claims as well as administrative expenses. If a refund or additional premium is due to/from BATA, such adjustment will be made approximately six months after the pool's fiscal year-end of November 30.

For the fiscal period ending November 30, 2007, the pool incurred over \$1.35 million in claims. As a result of these claims, each member is required to pay a share of the total liability to help replenish depleted reserves. BATA's share of this obligation is \$96,877 and is due November 1, 2008. The obligation will be paid in accordance with a negotiated payment schedule. The obligation has not been recorded on the Authority's financial statements.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE H - RETIREMENT PLANS

Defined Contribution Plan

In April 2006, BATA joined the Municipal Employees' Retirement System of Michigan ("MERS") defined contribution plan. Employees participating in this Plan are required to contribute a minimum of 1.5% of their gross payroll and are eligible for an additional employer contribution equal to 7% of contributing employees' gross payroll. Employer contributions to this plan were \$65,896 for the year ended September 30, 2008.

Defined Benefit Plan

In April 2006, BATA joined the Municipal Employees' Retirement System of Michigan ("MERS") defined benefit plan. MERS is an agent multiple-employer public employee's pension plan and is a tax-qualified plan under Section 401(a) of the Internal Revenue Service Code. MERS is an independent non-profit public corporation established by the Legislature pursuant to Public Act 220 of 1996, and is an instrumentality of the participating municipalities and courts. BATA is responsible for the employer contributions needed to provide MERS benefits for its employees and former employees under the Michigan Constitution and the MERS Plan Document. MERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MERS, 1134 Municipal Way, Lansing, MI 48917, by calling (800) 767-6377 or on the State of Michigan's website at www.michigan.gov.

Funding Policy

BATA is required to contribute at an actuarially determined rate for the defined benefit plan. The rate for the year ended September 30, 2008 was 7.81% and 7.33% of covered payroll for salaried and hourly employees, respectively. Total covered payroll for the current year was \$2,678,871. If a member leaves the employ of the municipality, or dies, without a retirement allowance or other benefit payable on his/her account, the member's accumulated contributions plus interest are refunded to the member or to the member's beneficiary.

Contributions Required and Contributions Made

MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The actuarial assumptions include (a) 8% investment rate of return (b) projected salary increases of 4.5% per year compounded annually and (c) additional projected salary increases of 4.5% to 12.9% per year, depending on age, attributable to merit, longevity and promotions. Both (a) and (b) include an inflation component. The normal cost and amortization payment for the year ended December 31, 2007 were determined using the entry age normal funding method.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE H - RETIREMENT PLANS - Continued

Actuarial Accrued Liability at December 31, 2007

Actuarial Valuation

Retirees and beneficiaries currently receiving benefits	\$ 12,498
Non-vested terminated employees (pending refunds of accumulated member contributions)	760
Current employees	
Accumulated employee contributions including allocated investment income	1,076,633
Employer financed	<u>444,689</u>
Total actuarial accrued liability	1,534,580
Net assets available for benefits at actuarial value (market value is \$1,443,848)	<u>1,427,199</u>
Unfunded actuarial accrued liability	<u>\$ 107,381</u>

Trend Information

<u>Fiscal Years Ended September 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2008	\$ 188,375	100%	\$ 0
2007	\$ 152,375	100%	\$ 0
2006	\$ 81,039	100%	\$ 0

Schedule of Funding Progress

<u>Actuarial Valuation Date December 31,</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
2007	\$ 1,427,199	\$ 1,534,580	\$ 107,381	93%	\$ 2,392,832	4%
2006	\$ 464,478	\$ 505,212	\$ 40,734	92%	\$ 2,089,501	2%

NOTE I - SELF-INSURED HEALTH BENEFITS

BATA self-insures certain dental benefits for its employees which, in the aggregate, has minimal financial exposure. The maximum expense is \$1,000 per year, per employee.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE J - CONTINGENCIES

Amounts received or receivable under grant programs are subject to audit and adjustment by the grantor agencies, principally the Federal and State governments. Any disallowed claims, including amounts already collected, may constitute a liability of the transit authority. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the transit agency expects such amount, if any, to be immaterial.

NOTE K - STATEMENT OF CASH FLOWS

Reconciliation of operating loss to net cash used by operating activities:

Operating loss	\$(6,510,781)
Add depreciation expense not requiring outlay of cash	612,382
Add disposal of assets	941
Add contributed services not requiring outlay of cash	26,147
Add interest paid	33,100
Add refunds received	93,301
Change in receivables	7,697
Change in prepaid expenses	(18,851)
Change in accounts payable	(110,850)
Change in accrued expenses	<u>(49,269)</u>
Net cash used by operating activities	<u>\$(5,916,183)</u>

**SUPPLEMENTAL INFORMATION REQUIRED BY
MICHIGAN DEPARTMENT OF TRANSPORTATION**

BATA**LOCAL REVENUES**

For the Year Ended September 30, 2008

Passenger Fares - Nonurban Regular Service	\$ 324,694
Passenger Fares - Job Access & Reverse Commute	822
Package Delivery/ "Meals on Wheels"	6,481
Northern Lakes Community Mental Health - Contract Fares	166,145
Traverse City Schools - Contract Fares	14,600
Leland Public Schools - Contract Fares	9,000
County Commission's on Aging - Contract Fares	19,000
Munson Medical Center - Contract Fares	35,600
Other Contract Fares	13,637
Advertising	10,820
Intercity Ticket Sales	44,896
Non-Transportation Revenues	94,426
Tax Levy	2,037,922
Interest Income	5,250
Contributed Services	26,147
	<hr/>
Total	<u><u>\$ 2,809,440</u></u>

BATA utilizes the services of a third party to attract advertisers and negotiate terms. Subsequently, BATA receives 50% of the advertising proceeds. As a result, BATA did not incur expenses associated with #40615 advertising revenue and, therefore, no expenses are subtracted out as ineligible on OAR Schedule 4E (Nonurban Regular Services) and 4E (Job Access and Reverse Commute) or on Schedule 5.

BATA subtracted out as ineligible a total of \$789 of package delivery revenue, \$25,510 of a workers' compensation rebate and \$67,791 of a Michigan Transit Pool refund associated with #40799 on OAR Schedule 4E (Nonurban Regular Services) and 4E (Job Access and Reverse Commute) and on Schedule 5. The remaining revenues are associated with providing Meals on Wheels services and are included in eligible expenses per the BPT R&E Manual.

BATA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

September 30, 2008

- Note 1** The Schedule of Expenditures of Federal and State Awards is prepared on the accrual basis of accounting.
- Note 2** Management has reported that expenditures in this Schedule of Expenditures of Federal and State Awards are equal to those amounts reported in the annual or final cost reports. Unallowed differences, if any, have been disclosed to the auditor.
- Note 3** The financial reports, including claims for advances and reimbursements and amounts claimed or used for matching are timely, complete, accurate and contain information that is supported by the books and records from which the basic financial statements have been prepared. Grant receipts are reported on the Schedule of Expenditures of Federal and State Awards, as passed through the Michigan Department of Transportation.
- Note 4** A reconciliation of expenditures on the Schedule of Expenditures of Federal and State Awards sources reported on the financial statements are as follows:
- | | |
|---|--------------------|
| Federal expenditures per Schedule of Expenditures of Federal and State Awards | \$1,585,110 |
| Capital contracts reported as invested in fixed assets | (552,241) |
| Section 5316 JARC revenue reported as State revenue | <u>(11,000)</u> |
| Federal Section 5311 revenue per Schedule 4R | <u>\$1,021,869</u> |
- Note 5** The schedule reflects adjustments noted in the final reconciliation process with the Michigan Department of Transportation.

BATA

OPERATING AND CONTRACT EXPENSES

For the Year Ended September 30, 2008

Expenses	Operating Assistance-Act 51	Section 5316 Contract# 2007-0170/Z5	Job Access and Reverse Commute	Total
	Nonurban Regular Services			
501 Labor	\$ 3,233,072	\$ 12,277		\$ 3,245,349
502 Fringe benefits	1,246,245	3,786		1,250,031
503 Services	395,531	2,040		397,571
504 Materials and supplies	1,157,465	3,421		1,160,886
505 Utilities	130,974	392		131,366
506 Insurance	165,845	379		166,224
509 Miscellaneous expenses	33,021	223		33,244
511 Interest expense	38,039	147		38,186
512 Operating leases and rentals	65,324	198		65,522
513 Depreciation	610,472	1,910		612,382
Total expenses	<u>\$ 7,075,988</u>	<u>\$ 24,773</u>		<u>\$ 7,100,761</u>

BATA

Nonurban Regular Service Revenue Report

For the Year Ended September 30, 2008

Code	Description	Amount
401:	Farebox Revenue	
40100	Passenger Fares	\$ 324,694
40200	Contract Fares	257,983
40400	Package Delivery/ "Meals on Wheels"	6,481
406:	Auxiliary Trans Revenues	
40615	Advertising	10,820
40620	Intercity Ticket Sales	44,896
407:	NonTrans Revenues	
40799	Other NonTrans Revenue (MPT refund of \$67,791; Workers compensation rebate of \$25,510; other miscellaneous items such as locker rentals and payroll garnishments totaling \$1,125)	94,426
408:	Local Revenue	
40800	Taxes Levied Directly for/by Transit Agency	2,037,922
411:	State Formula and Contracts	
41101	State Operating Assistance	2,300,833
41113	Capital Contract Reimbursement for Admin Expenses (2002-0012/Z21 - Admin travel)	121

BATA

Nonurban Regular Service Revenue Report

For the Year Ended September 30, 2008

Code	Description	Amount
413:	Federal Contracts	
41301	Federal Section 5311 (operating funds only)	\$ 1,021,869
41313	Capital Contract Reimbursement for Admin Expenses (2002-0012/Z21 - Admin travel)	486
414:	Other Revenue	
41400	Interest Income	5,250
430:	Contributed Services	
43000	Contributed services	26,147
Total Revenues		<u>\$ 6,131,928</u>

BATA

Nonurban Regular Service Expense Report

For the Year Ended September 30, 2008

Code	Description	Operations	Maintenance	General Admin.	Total
501:	Labor				
50101	Operators Salaries & Wages	\$ 1,821,743	\$ -	\$ -	\$ 1,821,743
50102	Other Salaries and Wages	312,373	281,803	341,129	935,305
50103	Dispatchers' Salaries & Wages	476,024	-	-	476,024
502:	Fringe Benefits				
50200	Other Fringe Benefits	683,449	139,427	235,662	1,058,538
50201	Pension	144,417	16,647	26,643	187,707
503:	Services				
50302	Advertising Fees	-	-	14,334	14,334
50305	Audit Cost	-	-	64,497	64,497
50399	Other Services (Repair and maintenance of buses paid to outside vendors; professional and technical services rendered by persons who are not BATA employees i.e.election costs, legal, custodial and consulting services, etc.)	3,072	150,302	163,326	316,700
504:	Materials and Supplies				
50401	Fuel & Lubricants	708,469	162	-	708,631
50402	Tires & Tubes	30,891	-	-	30,891
50499	Other Materials & Supplies	152,706	209,282	55,955	417,943
505:	Utilities				
50500	Utilities	-	-	130,974	130,974
506:	Insurance				
50603	Insurance	150,108	-	15,395	165,503

BATA

Nonurban Regular Service Expense Report

For the Year Ended September 30, 2008

Code	Description	Operations	Maintenance	General Admin.	Total
50699	Other Insurance	\$ -	\$ -	\$ 342	\$ 342
509:	Misc Expenses				
50902	Travel and Meetings	45	-	2,802	2,847
50903	Association Dues & Subscriptions	-	-	7,558	7,558
50999	Other Miscellaneous Expenses (Miscellaneous employee training; driver and return to work physicals; bank fees)	10,550	1,308	10,758	22,616
511:	Interest Expense				
51101	Interest on Long-Term Debt	-	-	13,493	13,493
51102	Interest on Short-Term Debt	-	-	24,546	24,546
512:	Operating Leases & Rentals				
51200	Operating Leases & Rentals	45,796	-	19,528	65,324
513:	Depreciation				
51300	Depreciation	452,311	267	157,894	610,472
550:	Ineligible Expenses				
55006	Other Ineligible Interest Expense	-	-	13,822	13,822
55007	Ineligible Depreciation	416,962	-	157,894	574,856
55008	Other Ineligible Expenses (Workers Compensation rebate, MPT refund, Contributed services, penalties and deliveries)	-	-	121,632	121,632
55009	Ineligible Percent of Assoc. Dues	-	-	392	392

BATA

Nonurban Regular Service Expense Report

For the Year Ended September 30, 2008

Code	Description	Operations	Maintenance	General Admin.	Total
576:	Ineligible Expenses				
57603	Ineligible Administrative				
	Expenses paid by capital contract	\$ -	\$ -	\$ 603	\$ 603
	(2002-0012/Z21 - Administrative travel				
	for Hybrid bus project. 80% Federal				
	funding recorded in #41313; 20% State				
	funding recorded in #41113.				
		<u>\$ 4,991,954</u>	<u>\$ 799,198</u>	<u>\$ 1,284,836</u>	7,075,988
Total Ineligible Expenses					<u>711,305</u>
Total Eligible Expenses					<u>\$ 6,364,683</u>

BATA

Nonurban Regular Service Nonfinancial Report

For the Year Ended September 30, 2008

Code	Description	Weekday	Saturday	Sunday	Total
610:	Vehicle Hours				
	Nonurban Regular Services	121,666	7,383	2,676	131,725

Code	Description	Weekday	Saturday	Sunday	Total
611:	Vehicle Miles				
	Nonurban Regular Services	1,913,950	82,108	31,522	2,027,580

BATA

Job Access and Reverse Commute Revenue Report

For the Year Ended September 30, 2008

Code	Description	Amount
401:	Farebox Revenue	
40100	Passenger Fares	\$ 822
411:	State Formula and Contracts	
41199	Other MDOT/PTD Contracts and Reimbursements (JARC)	22,000
Total Revenues		<u><u>\$ 22,822</u></u>

BATA**Job Access and Reverse Commute Expense Report**

For the Year Ended September 30, 2008

Code	Description	Operations	Maintenance	General Admin.	Total
501:	Labor				
50101	Operators Salaries & Wages	\$ 6,984	\$ -	\$ -	\$ 6,984
50102	Other Salaries and Wages	1,288	951	1,052	3,291
50103	Dispatchers' Salaries & Wages	2,002	-	-	2,002
502:	Fringe Benefits				
50200	Other Fringe Benefits	1,978	390	750	3,118
50201	Pension	536	51	81	668
503:	Services				
50302	Advertising Fees	-	-	98	98
50305	Audit Cost	-	-	500	500
50399	Other Services (Repair and maintenance of buses paid to outside vendors; professional and technical services rendered by persons who are not BATA employees i.e.election costs, legal, custodial and consulting services, etc.)	3	340	1,099	\$ 1,442
504:	Materials and Supplies				
50401	Fuel & Lubricants	1,700	-	-	1,700

BATA

Job Access and Reverse Commute Expense Report

For the Year Ended September 30, 2008

Code	Description	Operations	Maintenance	General Admin.	Total
50402	Tires & Tubes	\$ 132	\$ -	\$ -	\$ 132
50499	Other Materials & Supplies	166	1,136	287	1,589
505:	Utilities				
50500	Utilities	-	-	392	392
506:	Insurance				
50603	Insurance	282	-	97	379
509:	Misc Expenses				
50903	Association Dues & Subscriptions	-	-	94	94
50999	Other Miscellaneous Expenses	62	-	67	129
511:	Interest Expense				
51101	Interest on Long-Term Debt	-	-	126	126
51102	Interest on Short-Term Debt			21	21
512:	Operating Leases & Rentals				
51200	Operating Leases & Rentals	111	-	87	198

BATA**Job Access and Reverse Commute Expense Report**

For the Year Ended September 30, 2008

Code	Description	Operations	Maintenance	General Admin.	Total
513:	Depreciation				
51300	Depreciation	\$ 1,368	\$ -	\$ 542	\$ 1,910
550:	Ineligible Expenses				
55006	Other Ineligible Interest Expense	-	-	126	126
55007	Ineligible Depreciation	1,253	-	542	1,795
55008	Other Ineligible Expenses (Workers Compensation rebate, MPT refund, Contributed services, penalties and deliveries)	-	-	848	848
576:	Ineligible Expenses				
57603	Ineligible Administrative Expenses paid by capital contract (#2002-0012/Z21 - Administrative travel for hybrid bus project. 80% Federal funding recorded in #41313; 20% State funding recorded recorded in #41113)	-	-	4	4
		\$ 16,612	\$ 2,868	\$ 5,293	24,773
				Total Ineligible Expenses	2,773
				Total Eligible Expenses	\$ 22,000

BATA

Job Access and Reverse Commute Nonfinancial Report

For the Year Ended September 30, 2008

Code	Description	Weekday	Saturday	Sunday	Total
610:	Vehicle Hours				
	Job Access and Reverse Commute	409	42	39	490

Because expenses associated with providing Job Access and Reverse Commute service is based on vehicle hours, the methodology used for compiling hours is an adequate and reliable method

Code	Description	Weekday	Saturday	Sunday	Total
611:	Vehicle Miles				
	Job Access and Reverse Commute	4,464	528	416	5,408

The methodology used for compiling mileage is an adequate and reliable method for recording vehicle mileage

BATA

Schedule 5

OPERATING ASSISTANCE CALCULATION

For the Year Ended September 30, 2008

	Nonurban Regular Services	Job Access and Reverse Commute	Total
Total Expenses	\$ 7,075,988	\$ 24,773	\$ 7,100,761
Less Ineligible Expenses			
Interest Expense	13,822	126	13,948
Depreciation	574,856	1,795	576,651
Association Dues	392	-	392
Travel Expense Reimbursed by Capital Grants			
Section 5309 - Contract # 2002-0012/Z21	603	4	607
Other Ineligible Expenses			
Workers' Comp Rebate	25,333	177	25,510
Contributed Services	25,966	181	26,147
Michigan Transit Pool Refund	67,322	469	67,791
Penalties	2,152	15	2,167
Charitable Contributions	75	1	76
Package Deliveries	784	5	789
Total Ineligible Expenses Per R&E Manual	711,305	2,773	714,078
Total State Eligible Expenses	\$ 6,364,683	\$ 22,000	\$ 6,386,683
Eligible Expenses for State Reimbursement	\$ 6,364,683	\$ 22,000	\$ 6,386,683
x Reimbursement Percentage	x 0.3615	1.0	
State Operating Assistance - Act 51	\$ 2,300,833		\$ 2,300,833
Job Access and Reverse Commute Section 5316			
Contract # 2007-0170/Z5		\$ 22,000	\$ 22,000
Total Federal Eligible Expenses	\$ 6,386,683		\$ 6,386,683
Eligible Expenses for Federal Reimbursement	\$ 6,386,683		\$ 6,386,683
x Reimbursement Percentage	x 0.16		0.16
Federal Section 5311 Operating Assistance			
Contract # 2007-0170/Z4	\$ 1,021,869		\$ 1,021,869

BATA utilizes the services of a third party to attract advertisers and negotiate terms. Subsequently, BATA receives 50% of the advertising proceeds. As a result, BATA did not incur expenses associated with #40615 advertising revenue and, therefore, no expenses are subtracted out as ineligible on OAR Schedule 4E (Nonurban Regular Services) and 4E (Job Access and Reverse Commute) or on Schedule 5.

BATA subtracted out as ineligible a total of \$789 of package delivery revenue, \$25,510 of a workers' compensation rebate and \$67,791 of a Michigan Transit Pool refund associated with #40799 on OAR Schedule 4E (Nonurban Regular Services) and 4E (Job Access and Reverse Commute) and on Schedule 5. The remaining revenues are associated with providing Meals on Wheels services and are included in eligible expenses per the revenue and expense manual.

OTHER SUPPLEMENTAL INFORMATION

BATA

OPERATING REVENUES

For the Year Ended September 30, 2008

Operating Revenues

Passenger Fares	\$ 325,516
Special Transit Fees	257,983
Freight Tariffs	<u>6,481</u>
Total Operating Revenues	<u>\$ 589,980</u>

BATA

OPERATING EXPENSES

For the Year Ended September 30, 2008

	<u>Operations</u>	<u>Maintenance</u>	<u>General and Administrative</u>	<u>Total</u>
Operating Expenses				
Labor				
Operators Salaries and Wages	\$ 1,828,727	\$ -	\$ -	\$ 1,828,727
Other Salaries and Wages	313,661	282,754	342,181	938,596
Dispatchers' Salaries and Wages	478,026	-	-	478,026
Fringe Benefits				
Other Fringe Benefits	685,427	139,817	236,412	1,061,656
Pension	144,953	16,698	26,724	188,375
Services				
Advertising Fees	-	-	14,432	14,432
Audit Cost	-	-	64,997	64,997
Other Services	3,075	150,642	164,425	318,142
Materials and Supplies				
Fuel & Lubricants	710,169	162	-	710,331
Tires & Tubes	31,023	-	-	31,023
Other Materials & Supplies	152,872	210,418	56,242	419,532
Utilities				
Utilities	-	-	131,366	131,366
Insurance				
Insurance	150,390	-	15,492	165,882
Other Insurance	-	-	342	342
Misc Expenses				
Travel and Meetings	45	-	2,802	2,847
Association Dues & Subscriptions	-	-	7,652	7,652
Other Miscellaneous Expenses	10,612	1,308	10,825	22,745
Interest Expense				
Interest on Long-Term Debt	-	-	13,619	13,619
Interest on Short-Term Debt	-	-	24,567	24,567
Operating Leases & Rentals				
Operating Leases & Rentals	45,907	-	19,615	65,522
Depreciation				
Depreciation	453,679	267	158,436	612,382
Total Operating Expenses	<u>\$ 5,008,566</u>	<u>\$ 802,066</u>	<u>\$ 1,290,129</u>	<u>\$ 7,100,761</u>

BATA

NON-OPERATING REVENUES

For the Year Ended September 30, 2008

State of Michigan Operating Grants	
State Operating Assistance - Act 51	\$ 2,300,833
Job Access and Reverse Commute - Section 5316	
Contract # 2007-0170/Z5	22,000
Adjustments to Prior Year Contracts	
Act 51 - FY2005	<u>(1,820)</u>
Total State of Michigan Operating Grants	<u>2,321,013</u>
Federal Operating Grants	
Federal Operating Assistance - Section 5311	
Contract # 2007-0170/Z4	1,021,869
Adjustments to Prior Year Contracts	
Contract # 2002-0012/Z22	<u>5,063</u>
Total Federal Operating Grants	<u>1,026,932</u>
Property Tax Revenues	
Property taxes	<u>2,037,922</u>
Other Non Operating Income	
Advertising	10,820
Commissions	44,896
Non-Transportation Revenues	1,125
Workers' Compensation rebate	25,510
Michigan Transit Pool Refund	67,791
Interest Income	5,250
Contributed Services	<u>26,147</u>
Total Other Non Operating Income	<u>181,539</u>
Total Non Operating Revenues	<u>\$ 5,567,406</u>

BATA**CAPITAL CONTRIBUTIONS - GRANTS**

For the Year Ended September 30, 2008

Grants Received

Capital Grant - Section 5311 (80/20)

Contract # 2007-0170/Z3	\$ 8,009
Contract 2002-0012/Z16	11,250
Contract 2002-0012/Z20	6,000

Capital Grant - Section 5309 (80/20)

Contract 2002-0012/Z11	84,005
Contract 2002-0012/Z15	158,630
Contract 2002-0012/Z21	<u>422,407</u>

Total Capital Contributions - Grants

\$ 690,301

FEDERAL AND STATE PROGRAM REPORTS



DENNIS, GARTLAND & NIERGARTH

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Business Advisors

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Authority Board
BATA

Compliance

We have audited the compliance of *BATA* with the types of compliance requirements described in the *U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended September 30, 2008. *BATA's* major Federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of *BATA's* management. Our responsibility is to express an opinion on *BATA's* compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about *BATA's* compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on *BATA's* compliance with those requirements.

In our opinion, *BATA* complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended September 30, 2008.

Internal Control Over Compliance

The management of *BATA* is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered *BATA's* internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of *BATA's* internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in BATA's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be a material weaknesses, as defined above.

This report is intended solely for the information and use of the Board members, management, Michigan Department of Transportation, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dennis, Gartland & Niergarth

December 18, 2008

BATA

SUMMARY SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS

September 30, 2008

Section 2 - Findings in Accordance with Generally Accepted Government Auditing Standards.

Finding Number 2007-1

Criteria: Adequate oversight of the accounting records and timely reconciliations of all significant general ledger accounts must be performed in order to accurately represent the financial position of BATA.

Condition: Inadequate oversight of the accounting department and the absence of a controller resulted in a lack of internal controls related to account reconciliations.

Cause: Oversight of the accounting records and financial reporting was delegated to the controller. Near the end of the fiscal year ended September 30, 2006, BATA's controller left employment. This resulted in BATA's inability to perform month-end reconciliations and produce accounting records in accordance with Generally Accepted Accounting Principles.

Effect: As a result of this condition, considerable resources were spent in an effort to accurately report the results of operations and the financial position as of September 30, 2007.

Management's Response: Management engaged consultants to assist in reconciling all accounts and is taking steps to train current staff to perform monthly reconciliations of all significant accounts. Management has hired a qualified individual to perform the oversight role needed in the accounting department, as well as implement processes that would not allow for the departure of one individual to cause an inability by BATA as a whole to prepare accurate accounting records.

Current Status: This finding was adequately addressed during the fiscal year ended September 30, 2008.

Finding Number 2007-2

Criteria: Adequate segregation of duties for BATA is necessary to minimize the likelihood that fraud or errors could occur and not be detected.

Condition: BATA has not achieved a complete segregation of duties among employees who have both access to assets and accounting responsibilities.

Cause: The small size of the accounting department creates an inherent lack of segregation of duties.

Effect: As a result of this condition, BATA lacks proper segregation of duties and is exposed to an increased risk of misstatement of its financial statements.

Management's Response: BATA has evaluated the manner in which they segregate duties and, although have added two full-time finance positions, believe the cost associated with adding additional staff to achieve a complete segregation is not justified by the expected benefits.

Current Status: This finding is repeated for the fiscal year ended September 30, 2008.

Section 3 - Current Year Findings and Questioned Costs in Accordance with OMB Circular A-133.

Finding Number 2007-3

Program: Section 5311 Operating Assistance CFDA Number 20.509.

Criteria: OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, Section C, Paragraph 1j, requires costs be adequately documented.

Condition: The quarterly and annual reports filed with the State of Michigan Department of Transportation could not be verified with the accounting records because BATA did not retain the detail used to prepare the reports. Adjustments were posted after the reports had been filed.

Cause: Supporting documentation was not retained for the reports that were filed.

Effect: As a result of this condition, the reports BATA filed with the State of Michigan could not be verified to actual financial results for the same period.

Management's Response: BATA uses a report which summarizes and pulls financial data directly from the accounting software in order to comply with the Michigan Department of Transportation's quarterly and annual reporting requirement. BATA could only locate the supporting third quarterly report during the fiscal year 2007 audit. BATA will retain a copy of all future supporting reports.

Current Status: This finding was adequately addressed during the fiscal year ended September 30, 2008.



DENNIS, GARTLAND & NIERGARTH

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Authority Board
BATA

We have audited the financial statements of *BATA* as of and for the year ended September 30, 2008, and have issued our report thereon dated December 18, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered BATA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of BATA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of BATA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects BATA's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of BATA's financial statements that is more than inconsequential will not be prevented or detected by BATA's internal control. We consider the deficiency 2008-1 described in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by BATA's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether BATA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

BATA's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit BATA's response and, accordingly, we express no opinion it.

This report is intended solely for the information and use of the BATA Board, management, Michigan Department of Transportation, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dennis, Gartland & Niergarth

December 18, 2008

Thomas E. Gartland, CPA
Brad P. Niergarth, CPA
James G. Shumate, CPA
Robert C. Thompson, CPA
Michael D. Shaw, CPA
Mary F. Krantz, CPA
Shelly K. Bedford, CPA
Heidi M. Wendel, CPA

AUDIT-RELATED COMMUNICATIONS

To the Authority Board
BATA

We have audited the financial statements of BATA for the year ended September 30, 2008, and have issued our report thereon dated December 18, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated September 2, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Compliance

As part of obtaining reasonable assurance about whether BATA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about BATA's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement applicable to each of its major Federal programs for the purpose of expressing an opinion on BATA's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on BATA's compliance with those requirements.

Internal Controls

In planning and performing our audit, we considered BATA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects BATA's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of BATA's financial statements that is more than inconsequential will not be prevented or detected by BATA's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by BATA's internal control.

We consider the following deficiency to be a *material weakness* in internal controls:

Segregation of Duties

We remind you that an inherent weakness in your system of internal control exists because the limited size of your staff does not permit an adequate segregation of duties. Without an adequate segregation of duties, there is an increased risk that errors or fraud could occur and not be detected. Although there is no indication of any significant errors or misappropriation of assets, the Board must be aware of the lack of segregation of duties.

The following additional matters are not considered to be material weaknesses or significant deficiencies in internal control, but are opportunities to strengthen internal controls, reporting and operating efficiency:

Depreciation Schedules

The fixed assets of BATA are maintained on a schedule and depreciated over time. While management has inventoried vehicles, management has not performed a physical inventory of furniture and equipment in several years. We recommend BATA review the fixed asset detail on an annual basis and determine if items recorded are still in use.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on October 23, 2008.

Qualitative Aspects of Accounting Practices

Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by BATA are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by BATA during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the valuation of receivables and related revenues.

We have evaluated management's estimates of amount due to/from the State and Federal grants as compared to the preliminary reimbursement rate for urbanized areas under 100,000 population as a basis for concluding about reasonableness of those estimates.

No Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The uncorrected misstatements of the financial statements include two items. Accounts payable and capital grants receivable were not recorded for an invoice of \$6,450 received after the year was closed. Grants receivable and revenue were not reduced for the 2006 operating settlement reconciliation adjustment of \$3,461. Management has determined their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 18, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to BATA's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues and General Comments

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as BATA's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Cash Flow (Repeat Comment)

Tax monies are collected from various municipalities beginning in December of each fiscal year. As a result, it is necessary for BATA to borrow money on a short-term basis to cover its first quarter expenses. BATA is pursuing a summer tax collection.

Net Assets (Repeat Comment)

BATA's total net assets as of September 30, 2008 are \$3,890,426. Of this amount, \$4,253,082 is invested in capital assets net of related debt; \$1,483,022 is restricted for new services; and unrestricted net assets had a deficit of \$1,845,678. A deficit elimination plan was adopted with a goal of adding \$50,000 to unrestricted net assets annually in fiscal years 2009 through 2012. The plan should be monitored closely and revised as needed to ensure the deficit condition is corrected in accordance with the plan.

Restricted net assets arise if externally imposed by a creditor or imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorized the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. The enforceability of the restriction cannot ultimately be proved unless tested through the judicial process. BATA needs to remain aware of the spending of restricted net assets and maintain a game plan to spend restricted net assets which are accumulating through the .10 mills tax levy approved to allow BATA to provide new public transportation services.

This information is intended solely for the use of the Authority Board and management of BATA and is not intended to be and should not be used by anyone other than these specified parties.

Dennis, Gartland & Niergarth

December 18, 2008